

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Isabella County Road Commission	County Isabella
Fiscal Year End September 30, 2007	Opinion Date January 8, 2008	Date Audit Report Submitted to State January 18, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

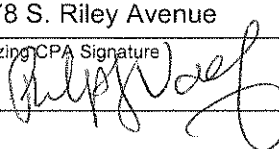
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI
Zip 49788		License Number 1101017275	
Authorizing CPA Signature 		Printed Name Phillip J. Wolf, CPA	

**ISABELLA COUNTY ROAD COMMISSION**

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**BASIC FINANCIAL STATEMENTS**

September 30, 2007

**ISABELLA COUNTY ROAD COMMISSION**

**BOARD OF COUNTY ROAD COMMISSIONERS**

Robert Curtiss  
Vice - Chairman

Stephen Jackson  
Chairman

Katheryn Elliot  
Member

David Livermore  
Member

Jaclyn Conrad  
Member

Anthony Casali  
Manager

Deborah A. Buesking  
Financial Director/Clerk

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMAN, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

Board of County Road Commissioners  
Isabella County Road Commission  
2261 E. Remus Road  
Mt. Pleasant, Michigan 48858-9002

We have audited the accompanying financial statements of the governmental activities and major fund of the Isabella County Road Commission (a component unit of the County of Isabella, Michigan) as of and for the year ended September 30, 2007, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Isabella County Road Commission as of September 30, 2007, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2008 on our consideration of the Isabella County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on page 3 and budgetary comparison information as listed in the table of contents are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Isabella County Road Commission's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

January 8, 2008

## **Management's Discussion and Analysis**

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**Using This Annual Report**

The Isabella County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

**Reporting the Road Commission as a Whole**

The statement of net assets and the statement of activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question of whether the Road Commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

**Reporting the Road Commission's Major Fund**

Our analysis of the road commission's major fund begins on page 11. The fund financial statements begin on page 25 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.



**The Road Commission as a Whole**

The Road Commission's net assets increased approximately 4.8% from \$63 million to \$65 million for the year ended September 30, 2007. The net assets and change in net assets are summarized below.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements increased. Restricted net assets, those restricted mainly for Act 51 purposes increased. The primary reason for the increases was due to increases in federal support for road projects. Increasing interest rates and gasoline tax revenue also negatively impacted net assets.

Net assets as of the years ended September 30, 2006 and 2007 is as follows:

	<u>Governmental Activities 2006</u>	<u>Governmental Activities 2007</u>
Current and Other Assets	\$ 4,508,336	\$ 3,421,266
Capital Assets	<u>61,164,983</u>	<u>63,637,133</u>
Total Assets	<u>\$ 65,673,319</u>	<u>\$ 67,058,399</u>
Current Liabilities	\$ 2,423,510	\$ 1,011,869
Other Liabilities	<u>755,970</u>	<u>554,217</u>
Total Liabilities	<u>3,179,480</u>	<u>1,566,086</u>
Net Assets		
Invested in Capital Assets – Net of Related Debt	60,397,822	63,059,557
Restricted	<u>2,096,017</u>	<u>2,432,756</u>
Total Net Assets	<u>\$ 62,493,839</u>	<u>\$ 65,492,313</u>

A summary of changes in net assets for the years ended September 30, 2006 and 2007 is as follows:

	<u>Governmental Activities</u> <u>2006</u>	<u>Governmental Activities</u> <u>2007</u>
Program Revenues		
Charges for Services	\$ 1,652,567	\$ 1,013,591
Grants and Contributions	9,017,124	9,086,341
Other	14,359	11,076
General Revenues		
Interest Income	38,741	58,883
Gain (Loss) on Disposal of Equipment	<u>34,288</u>	<u>29,258</u>
Total Revenues	<u>10,757,079</u>	<u>10,199,149</u>
Program Expenses		
Primary Roads	2,849,701	3,084,985
Local Roads	4,149,438	3,302,442
Interest Expense	36,151	35,001
Compensated Absences and Other	11,688	17,810
Equipment Expenses	117,923	40,571
Administrative	<u>504,093</u>	<u>719,866</u>
Total Expenses	<u>7,668,994</u>	<u>7,200,675</u>
Changes in Net Assets	3,088,085	2,998,474
Beginning Net Assets	<u>59,405,754</u>	<u>62,493,839</u>
Ending Net Assets	<u>\$ 62,493,839</u>	<u>\$ 65,492,313</u>

**The Road Commission's Fund**

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended September 30, 2007, the fund balance of the general operations fund increased \$350,153 as compared to an increase of \$1,079,481 in the fund balance for the year ended September 30, 2006. Total revenues were \$10.2 million, a decrease of \$600 thousand as compared to last year. This change in revenues resulted primarily from a decrease in State sources.

Total expenditures were \$10 million, an increase of \$200 thousand as compared to last year. This change in expenditures is primarily the increase in local road projects in the current year.

**Budgetary Highlights**

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The revenue budget for 2007 was higher than the actual receipts by \$618 thousand. This was due, in a large part, to the projection of federal, state and local road participations. The road commission budgets for the receipt of funds for projects on primary and local roads. This year, the revenue from federal contributions was lower than projected in the amount of \$658 thousand.

Road Commission expenditures were projected at \$11.37 million while actual expenditures were \$10.03 million. This resulted in total expenditures under budget by \$1.34 million. There are several items that account for most of the variance in the projection of the budget. The largest share of the variance is in the area of local and primary road preservation. Our engineering and maintenance departments projected that work in these two areas would be completed; however, weather and other factors combined to limit the amount of work that could be completed prior to year end.

**Capital Asset and Debt Administration****Capital Assets**

The Road Commission had the following amounts invested in capital assets as follows:

	<u>2006</u>	<u>2007</u>
Capital Assets Not Being Depreciated		
Land and Improvements	<u>\$ 20,478,452</u>	<u>\$ 21,268,737</u>
Other Capital Assets		
Buildings and Improvements	745,192	914,991
Road Equipment	5,429,022	5,562,085
Other Equipment	693,583	591,460
Infrastructure and Improvements	<u>61,558,319</u>	<u>66,151,459</u>
Total Capital Assets at Historic Cost	<u>68,426,116</u>	<u>73,219,995</u>
Total Accumulated Depreciation	<u>(27,739,585)</u>	<u>(30,851,599)</u>
Total Net Capital Assets	<u>\$ 61,164,983</u>	<u>\$ 63,637,133</u>

Current year's major additions included the following:

Reconstruction of Bridges	<u>\$ 839,295</u>
Various Resurfacing Projects	<u>\$ 4,513,982</u>
Trucks/Equipment	<u>\$ 341,890</u>
Buildings	<u>\$ 43,411</u>

**Debt**

The Road Commission has limited debt obligations as reported in Note 8. Bonds and notes issued have been paid currently. The Road Commission has long-term debt in the amount of \$769,345 which represents compensated absences, notes payable, and bonds payable.

**Economic Factors and Next Year's Budget**

The Board of County Road Commissioners considered many factors when adopting the fiscal year 2008 budget. One of the factors is the economy. The Road Commission derives approximately 60% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Isabella County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Isabella County.

**Contacting the Road Commission's Financial Management**

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Isabella County Road Commission administrative offices at 2261 E. Remus Road, Mt. Pleasant, Michigan 48858.

## **Basic Financial Statements**

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# Isabella County Road Commission

## Statement of Net Assets September 30, 2007

### ASSETS

#### Current Assets:

Cash and Equivalents	\$ 1,189,049
Accounts Receivable:	
Michigan Transportation Fund	885,012
Due from Other Units	106,251
Due on County Road Agreements	932,865
Sundry Accounts	814
Land Contract	11,310
Inventories:	
Road Materials	13,750
Equipment, Parts and Materials	159,789
Prepaid Expenses	<u>122,426</u>

Total Current Assets 3,421,266

#### Noncurrent Assets:

Capital Assets – Nondepreciable	21,268,737
Capital Assets (Net of Accumulated Depreciation)	<u>42,368,396</u>

Total Assets \$ 67,058,399

### LIABILITIES

#### Current Liabilities:

Accounts Payable	\$ 501,582
Contracts Payable	15,495
Due to State of Michigan	85,524
Due to County	78,000
Accrued Liabilities	61,526
Advances	11,030
Escrow and Other	29,230
Interest Payable	14,354
Notes Payable	15,128
Bonds Payable	<u>200,000</u>

Total Current Liabilities 1,011,869

#### Noncurrent Liabilities:

Notes Payable	148,094
Bonds Payable	200,000
Vested Employee Benefits	<u>206,123</u>

Total Liabilities 1,566,086

### NET ASSETS

Investment in Capital Assets - Net of Related Debt	63,059,557
Restricted for County Road	<u>2,432,756</u>
Total Net Assets	\$ <u>65,492,313</u>

The Notes to Financial Statements are an integral part of this statement.

# Isabella County Road Commission

## Statement of Activities For the Year Ended September 30, 2007

### Program Expenses:

Primary Road Maintenance and Preventive Maintenance	\$ 3,084,985
Local Road Maintenance and Preventive Maintenance	3,302,442
Net Equipment Expense	40,571
Net Administrative Expense	719,866
Compensated Absences	13,414
Interest Expense	35,001
Other	<u>4,396</u>

Total Program Expenses	<u>7,200,675</u>
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### Program Revenues:

Charges for Services:	
License and Permits	27,555
Charges and Other	24,288
Contributions from Local Units	623
Operating Grants and Contributions:	
Michigan Transportation Funds	4,704,660
Investment Earnings	58,883
Capital Grants and Contributions:	
Federal Grants	1,273,538
State Grants	582,053
Contributions from Local Units	2,525,467
Contributions from Private Sources	<u>972,824</u>

Total Program Revenues	<u>10,169,891</u>
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Net Program Revenues	<u>2,969,216</u>
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### General Revenues:

Gain on Disposals	<u>29,258</u>
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Total General Revenues	<u>29,258</u>
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Changes in Net Assets	2,998,474
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### Net Assets:

Beginning of Year	<u>62,493,839</u>
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End of Year	<u>\$ 65,492,313</u>
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The Notes to Financial Statements are an integral part of this statement.



# Isabella County Road Commission

## Balance Sheet September 30, 2007

	Governmental Fund Type General Operating Fund
<b><u>ASSETS</u></b>	
Cash and Equivalents	\$ 1,189,049
Accounts Receivable:	
Michigan Transportation Fund	885,012
Land Contract	11,310
Other Governmental Units	106,251
Due on County Road Agreements	932,865
Sundry Accounts	814
Inventories:	
Road Materials	13,750
Equipment, Parts, and Materials	159,789
Prepaid Expenses	<u>122,426</u>
Total Assets	<u>\$ 3,421,266</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>	
Liabilities:	
Accounts Payable	\$ 501,582
Contracts Payable	15,495
Accrued Liabilities	61,526
Due to State of Michigan	85,524
Due to County	78,000
Advances	11,030
Escrow and Other	<u>29,230</u>
Total Liabilities	<u>782,387</u>
Fund Equities:	
Fund Balance	
Unreserved and Undesignated	<u>2,638,879</u>
Total Fund Equities	<u>2,638,879</u>
Total Liabilities and Fund Equities	<u>\$ 3,421,266</u>

The Notes to Financial Statements are an integral part of this statement.

**Reconciliation of the Balance Sheet Fund  
Balance to the Statement of Net Assets  
For the Year Ended September 30, 2007**

Total Governmental Fund Balance	\$ 2,638,879
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	63,637,133
Interest accrued, but not due until the following year.	(14,354)
Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	<u>(769,345)</u>
Net Assets of Governmental Activities	<u>\$ 65,492,313</u>

# Isabella County Road Commission

## Statement of Revenues, Expenditures, and Changes in Fund Balance For the Year Ended September 30, 2007

	General Operating Fund
Revenues:	
License and Permits	\$ 27,555
Federal Sources	1,273,538
State Sources	5,286,713
Contributions from Local Units	2,526,090
Charges for Services	13,212
Interest and Rents	58,883
Other Revenue	<u>1,019,210</u>
Total Revenues	<u>10,205,201</u>
Expenditures:	
Public Works	9,728,441
Capital Outlay	(97,979)
Debt Service	<u>394,436</u>
Total Expenditures	<u>10,024,898</u>
Excess of Revenues Over (Under) Expenditures	<u>180,303</u>
Other Financing Sources:	
Note Proceeds	<u>169,850</u>
Total Other Financing Sources	<u>169,850</u>
Excess (Deficit) of Revenues and Other Financing Sources Over (Under) Expenditures	350,153
Fund Balance – October 1, 2006	<u>2,288,726</u>
Fund Balance – September 30, 2007	<u>\$ 2,638,879</u>

The Notes to Financial Statements are an integral part of this statement.

**Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balance of  
Governmental Funds to the Statement of Activities  
For the Year Ended September 30, 2007**

Net Change in Fund Balance – Total Governmental Funds \$ 350,153

Amounts reported for governmental activities in the statements are different because:

Governmental funds report capital outlays and infrastructure costs as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 2,478,200

Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities. 597

Loss on capital asset disposals, not recognized in governmental funds (6,647)

Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets. Loan proceeds provide current financial resources to governmental funds, but entering into loan agreements increases long-term liabilities in the statement of net assets. 189,585

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the Governmental funds. (13,414)

Changes in Net Assets of Governmental Activities \$ 2,998,474

## **Notes to Financial Statements**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Isabella County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Isabella County Road Commission.

**A. Reporting Entity**

The Isabella County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 5 member Board of County Road Commissioners which is elected biennially for a full term of six years. The Road Commission may not issue bonded debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Isabella County Road Commission, a discretely presented component unit of Isabella County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Isabella County Road Commission. There is only one major fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements. The general operating fund is the only major fund of the Commission.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Under the terms of grant agreements, the Commission funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Commission's policy to first apply restricted grant resources to such programs, and then general revenues.

**D. Assets, Liabilities, and Net Assets or Equity****Cash, Cash Equivalents and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. All deposits are recorded at cost.

**Inventories**

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

**Capital Assets**

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Isabella County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Isabella County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets.

**Depreciation**

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment & Vehicles	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

**Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.



**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Compensated Absences (Vacation and Sick Leave)**

The maximum accumulation of vacation hours according to the union agreement is 200 hours. Any excess of the maximum is lost on the anniversary date of hire. Employees accrue hours monthly. Each regular full-time employee is provided with 8 hours per month of sick leave benefit. Each employee receives payment for leave not used upon retirement or death up to 240 hours.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY****Budgetary Procedures**

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Road Commission's Chief Administrative Officer (manager) and Financial Director prepare and submit a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The Board has authorized the Chief Administrative Officer to amend the Road Commission budget when necessary, without increasing the overall budget, by transferring up to 25 percent from one line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements. All budgeted appropriations lapse at year end. Expenditures exceeded appropriations by a significant amount for the principal payments item by \$168,367 during fiscal 2007.

**NOTE 3 - CASH AND DEPOSITS**

The cash and investments are classified into the following categories:

Petty Cash	\$ 150
Imprest Cash	1,000
Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)	<u>1,187,899</u>
Total Cash	<u>\$ 1,189,049</u>

**NOTE 3 - CASH AND DEPOSITS (Continued)**

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

*Interest rate risk.* The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Commission has no investment policy that would further limit its investment choices.

*Custodial investment credit risk.* Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Commission invests with the County of Isabella and would receive its proportional share of holdings.

*Custodial deposit credit risk.* Custodial deposit credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of year end, \$91,305 of the Commission's bank balance of \$191,305 was exposed to credit risk because it was uninsured and uncollateralized. Other cash balances are pooled with the County of Isabella funds and would receive a proportional share of insurance.

**NOTE 4 - DEFERRED COMPENSATION PLAN**

The Isabella County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Isabella County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Isabella County Road Commission's financial statements.

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity of the Isabella County Road Commission for the current year was as follows:

	Beginning Balances 10/01/06	Additions	Adjustments/ Deductions	Ending Balances 09/30/07
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 225,882	\$ -	\$ -	\$ 225,882
Land Improvements	126,167	-	-	126,167
Land Improvement – Infrastructure	<u>20,126,403</u>	<u>790,285</u>	<u>-</u>	<u>20,916,688</u>
Subtotal	<u>20,478,452</u>	<u>790,285</u>	<u>-</u>	<u>21,268,737</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	745,192	43,411	126,388	914,991
Road Equipment	5,429,022	318,231	(185,168)	5,562,085
Shop Equipment	127,427	8,882	-	136,309
Office Equipment	136,665	10,502	-	147,167
Engineers' Equipment	109,096	4,275	606	113,977
Yard and Storage	320,395	-	(126,388)	194,007
Infrastructure – Bridges	14,509,828	839,295	(11,664)	15,337,459
Infrastructure – Roads	<u>47,048,491</u>	<u>3,723,697</u>	<u>41,812</u>	<u>50,814,000</u>
Subtotal	<u>68,426,116</u>	<u>4,948,293</u>	<u>(154,414)</u>	<u>73,219,995</u>
<i>Less Accumulated Depreciation</i>				
Buildings	408,452	24,152	-	432,604
Road Equipment	4,760,800	274,688	(34,034)	5,001,454
Shop Equipment	101,469	8,571	-	110,040
Office Equipment	81,492	10,053	-	91,545
Engineers' Equipment	96,623	5,423	-	102,046
Yard and Storage	128,378	8,662	-	137,040
Infrastructure – Bridges	4,224,510	272,949	218,236	4,715,695
Infrastructure – Roads	<u>17,937,861</u>	<u>2,504,755</u>	<u>(181,441)</u>	<u>20,261,175</u>
Subtotal	<u>27,739,585</u>	<u>3,109,253</u>	<u>2,761</u>	<u>30,851,599</u>
Net Capital Assets Being Depreciated	<u>40,686,531</u>	<u>1,839,040</u>	<u>(157,175)</u>	<u>42,368,396</u>
Total Net Capital Assets	<u>\$ 61,164,983</u>	<u>\$ 2,629,325</u>	<u>\$ (157,175)</u>	<u>\$ 63,637,133</u>

**NOTE 5 - CAPITAL ASSETS (Continued)**

Depreciation expense was charged to operations of the Isabella County Road Commission as follows:

Primary Road Maintenance and Preventive Maintenance	\$ 1,491,944
Local Road Maintenance and Preventive Maintenance	1,285,760
Equipment	274,688
Administrative	15,475
Other	<u>41,386</u>
Total Depreciation Expense	<u>\$ 3,109,253</u>

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT**
Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

**Plan Description** – The Isabella County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Isabella County Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 1134 Municipal Way, Lansing, Michigan.

**Funding Policy** – The obligation to contribute and maintain the system for these employees was established by negotiation with the Isabella County Road Commission's competitive bargaining units and requires a contribution from the employees of 3% of the first \$4,200 wages and then 5% of remaining earnings.

**Annual Pension Costs** – For fiscal year ended 2007, the Isabella County Road Commission's annual pension cost of \$151,696 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as December 31, 2004, using the age normal cost method. Significant actuarial assumptions used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, 2006 is as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial Value of Assets	\$ 7,271,160	\$ 7,466,150	\$ 7,729,089
Actuarial Accrued Liability	8,376,471	8,792,769	9,145,499
Unfunded AAL	1,105,311	1,326,619	1,416,410
Funded Ratio	87%	85%	85%
Covered Payroll	1,860,015	1,410,212	1,543,355
UAAL as a Percentage of Covered Payroll	59%	94%	92%

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)**

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 66,720	100%	0
2005	97,205	100%	0
2006	114,546	100%	0

The Isabella County Road Commission's total payroll during the current year was \$1,842,822. The current year contribution was calculated based on covered payroll of \$1,643,780, resulting in an employer contribution of \$147,653 and employee contributions of \$73,194.

**NOTE 7 - FEDERAL GRANTS**

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended September 30, 2007, the federal aid received and expended by the Road Commission was \$1,273,538 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the road commissions perform the work and would be subject to single audit requirements if they expended \$500,000 or more.

**NOTE 8 - LONG-TERM DEBT**

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

**Changes in Long-Term Debt**

	<u>10/01/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>09/30/07</u>
Note Payable	\$ 177,807	\$ 169,850	\$ 184,435	\$ 163,222
MTF Bonds Payable	575,000	-	175,000	400,000
Compensated absences (1)	192,709	13,414	-	206,123
Total	<u>\$ 945,516</u>	<u>\$ 183,264</u>	<u>\$ 359,435</u>	<u>\$ 769,345</u>

(1) The change in compensated absences is shown as a net addition.

**NOTE 8 - LONG-TERM DEBT (Continued)**

	<u>10/01/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>09/30/07</u>	<u>Due Within One Year</u>
INSTALLMENT PAYABLE:					
Note payable to finance company, payable in monthly installments of \$1,974, interest rate of 5.475%, secured by equipment, due June 2011.	<u>\$ 177,807</u>	<u>\$ -</u>	<u>\$ 177,807</u>	<u>\$ -</u>	<u>\$ -</u>
Note payable to finance company, payable in monthly installments of \$1,974, interest rate of 5.475%, secured by equipment, due June 2011.	<u>\$ -</u>	<u>\$ 169,850</u>	<u>\$ 6,628</u>	<u>\$ 163,222</u>	<u>\$ 15,128</u>
BONDS PAYABLE:					
\$1,725,000 General Obligation Bonds Payable of Isabella County over 10 years including sliding scale interest rate of 4.70% maturing in 2009.	<u>\$ 575,000</u>	<u>\$ -</u>	<u>\$ 175,000</u>	<u>\$ 400,000</u>	<u>\$ 200,000</u>

Annual debt service requirements:

	<u>MTF Series 1999 Bonds</u>			<u>Installment Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 200,000	\$ 18,700	\$ 218,700	\$ 15,128	\$ 8,560	\$ 23,688
2009	200,000	9,400	209,400	15,977	7,711	23,688
2010	-	-	-	16,874	6,814	23,688
2011	-	-	-	<u>115,243</u>	<u>4,493</u>	<u>119,736</u>
	<u>\$ 400,000</u>	<u>\$ 28,100</u>	<u>\$ 428,100</u>	<u>\$ 163,222</u>	<u>\$ 27,578</u>	<u>\$ 190,800</u>

**NOTE 9 - POST EMPLOYMENT BENEFITS**

In addition to the pension benefits, the County Road Commission provides post-employment health care insurance benefits to all retired employees by a group insurance plan. The benefits are provided in accordance with articles of the union agreement, which includes the provision that upon retirement, the commission contributes \$150 to \$350 per month for health coverage per retiree based on years of service scale. The Commission's obligation ceases upon the employee attaining the minimum age for Medicare coverage. Total post employment benefit payments for fiscal year 2007 were \$31,200. At September 30, 2007, eight retirees were eligible to receive benefits.

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at September 30, 2007.

Risk Management - The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

## **Required Supplementary Information**

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# Isabella County Road Commission

## Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues and Other Financing Sources For the Year Ended September 30, 2007

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 27,850	\$ 26,500	\$ 27,555	\$ 1,055
Federal Sources				
High Priority	345,524	368,880	338,568	(30,312)
Bridge	1,015,368	792,000	635,280	(156,720)
Other Grants	87,500	770,600	299,690	(470,910)
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	3,347,221	3,315,092	3,354,650	39,558
Local Road	1,770,485	1,751,859	1,753,874	2,015
Economic Development	-	24,489	49,074	24,585
Critical Bridge	190,432	148,500	119,115	(29,385)
Contributions from Local Units				
Townships and Cities	764,986	2,393,945	2,384,915	(9,030)
Other	37,500	124,569	141,175	16,606
Charges for Services				
Salvage Sales	7,700	8,600	10,952	2,352
Other	4,225	2,250	2,260	10
Interest and Rents	39,150	53,300	58,883	5,583
Other Revenue				
Gain on Disposals	-	35,310	35,310	-
Other	-	-	11,076	11,076
Private Contributions	13,750	980,339	972,824	(7,515)
Other Financing Sources				
Installment Proceeds	-	187,042	169,850	(17,192)
Total Budget	<u>\$ 7,661,691</u>	<u>\$ 10,993,275</u>	<u>\$ 10,375,051</u>	<u>\$ (618,224)</u>

# Isabella County Road Commission

## Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures – Budget and Actual For the Year Ended September 30, 2007

	Original Budget	Final, Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Construction	\$ -	\$ 363,300	\$ 368,465	\$ (5,165)
Preservation	708,653	2,077,718	1,415,506	662,212
Maintenance	1,566,000	1,465,158	1,338,850	126,308
Local Road				
Construction	-	600,280	562,347	37,933
Preservation	1,889,963	3,378,753	3,141,986	236,767
Maintenance	2,238,851	2,409,029	2,136,454	272,575
Equipment Expense – Net	217,113	172,756	40,571	132,185
Administrative Expense – Net	507,342	757,890	719,866	38,024
Capital Outlay – Net	-	(91,737)	(97,979)	6,242
Debt Service				
Principal	191,068	191,068	359,435	(168,367)
Interest	38,186	38,186	35,001	3,185
Other	10,000	5,000	4,396	604
Total Expenditures	7,367,176	11,367,401	<u>\$ 10,024,898</u>	<u>\$ 1,342,503</u>
Fund Balance – October 1, 2006	<u>2,288,726</u>	<u>2,288,726</u>		
Total Budget	<u>\$ 9,655,902</u>	<u>\$ 13,656,127</u>		

## **Other Supplementary Information**

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**Isabella County Road Commission****Analysis of Changes in Fund Balances  
For the Year Ended September 30, 2007**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 4,750,285	\$ 5,374,024	\$ 250,742	\$ 10,375,051
Total Expenditures	<u>3,366,233</u>	<u>6,335,295</u>	<u>323,370</u>	<u>10,024,898</u>
Excess of Revenues Over (Under) Expenditures	1,384,052	(961,271)	(72,628)	350,153
Optional Transfers In (Out)	<u>(961,271)</u>	<u>961,271</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	422,781	-	(72,628)	350,153
Fund Balance – October 1, 2006	<u>2,042,055</u>	<u>-</u>	<u>246,671</u>	<u>2,288,726</u>
Fund Balance – September 30, 2007	<u>\$ 2,464,836</u>	<u>\$ -</u>	<u>\$ 174,043</u>	<u>\$ 2,638,879</u>

**Isabella County Road Commission****Analysis of Revenues  
For the Year Ended September 30, 2007**

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Licenses and Permits	\$ -	\$ -	\$ 27,555	\$ 27,555
Federal Sources				
High Priority	338,568	-	-	338,568
Bridge	-	635,280	-	635,280
Other	194,625	105,065	-	299,690
State Sources				
Michigan Transportation Fund				
Engineering	6,400	3,600	-	10,000
Primary Road	3,354,650	-	-	3,354,650
Local Road	-	1,753,874	-	1,753,874
Economic Development	24,489	24,585	-	49,074
Critical Bridge	-	119,115	-	119,115
Contributions from Local Units				
Townships and Cities	607,258	1,777,657	-	2,384,915
Other	74,001	67,174	-	141,175
Charges for Services				
Salvage Sales	-	-	10,952	10,952
Other	-	-	2,260	2,260
Interest and Rents	50,888	-	7,995	58,883
Other Revenue				
Gain on Disposals	16,265	-	19,045	35,310
Other	-	-	11,076	11,076
Private Contributions	83,141	887,674	2,009	972,824
Other Financing Sources:				
Installment Proceeds	-	-	169,850	169,850
Total Revenue	<u>\$ 4,750,285</u>	<u>\$ 5,374,024</u>	<u>\$ 250,742</u>	<u>\$ 10,375,051</u>

**Isabella County Road Commission****Analysis of Expenditures  
For the Year Ended September 30, 2007**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Construction	\$ 368,465	\$ -	\$ -	\$ 368,465
Preservation	1,415,506	-	-	1,415,506
Maintenance	1,338,850	-	-	1,338,850
Local Road				
Construction	-	562,347	-	562,347
Preservation	-	3,141,986	-	3,141,986
Maintenance	-	2,136,454	-	2,136,454
Equipment Expense – Net	12,780	25,195	2,596	40,571
Administrative Expense – Net	250,793	469,073	-	719,866
Capital Outlay – Net	(222,615)	-	124,636	(97,979)
Debt Service				
Debt Principal Payments	175,000	-	184,435	359,435
Interest Expense	25,800	-	9,201	35,001
Other	<u>1,654</u>	<u>240</u>	<u>2,502</u>	<u>4,396</u>
Total Expenditures	<u>\$ 3,366,233</u>	<u>\$ 6,335,295</u>	<u>\$ 323,370</u>	<u>\$ 10,024,898</u>

## **Report on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMAN, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

Board of County Road Commissioners  
Isabella County Road Commission  
2261 E. Remus Road  
Mt. Pleasant, Michigan 48858-9002

We have audited the financial statements of the governmental activities and major fund, of the Isabella County Road Commission as of and for the year ended September 30, 2007, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated January 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Isabella County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.



A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiencies described in 07-1 and 07-2 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Isabella County Road Commission in a separate letter dated January 8, 2008.

This report is intended solely for the information and use of the Board of County Road Commissioners, management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

January 8, 2008

# Isabella County Road Commission

## Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2007

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Project</u>	<u>Federal Expenditures</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION:</b>				
Pass-Through Programs From:				
Bureau of Indian Affairs				
Reservation Roads Program	20.205	AGF50060003		\$ <u>105,065</u>
Pass-Through Programs From:				
Michigan Department of Transportation				
Broomfield Road Streetscape	20.205	STE 0537 (022)	83578	101,252
Millbrook Road at Gillmore Road	20.205	STP 0737 (009)	86111	186,208
Stevenson Lake Road at Crawford Road	20.205	STP 0737 (012)	84955	152,360
Fremont Road Bridge	20.205	BRO 0737 (014)	86271	217,900
Summerton Road Bridge	20.205	BRO 0737 (015)	86270	78,986
Beal City Road Bridge	20.205	BRO 0637	78957	338,394
Broadway Road – Leaton Road West	20.205	FLH 0437 (020)	80104	<u>93,373</u>
Subtotal – MDOT				<u>1,168,473</u>
Total U.S. Department of Transportation				<u>1,273,538</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<u><u>\$ 1,273,538</u></u>

Section II – Financial Statement Findings

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SIGNIFICANT DEFICIENCIES

**Inability of Management to Prepare the Financial Statements in Accordance  
with Generally Accepted Accounting Principles**

***Finding 07-1***

Specific Requirement: Establishment and maintenance of internal control over the financial reporting process as defined by Statement on Auditing Standards Number 112.

Criteria: Internal controls should be in place to provide reasonable assurance to the Commission that management reports financial statements necessary to monitor and report annual and interim financial activity without auditor intervention.

Condition: Personnel responsible for financial reporting are not monitoring and reporting interim or annual financial activity without auditor intervention.

Effect: The effect of this condition places a reliance on the independent auditor as part of the Commission's internal controls over financial reporting.

Cause: Unknown.

Recommendation: The Commission should review and implement the necessary education and procedural activities to monitor and report annual financial activity.

Planned Corrective Action: As a result of the limited funding, the Commission does not have resources to fund this process. We intend to re-evaluate once funding becomes available for the additional reporting and monitoring.

- Contact Person(s) Responsible for Correction:  
Anthony Casali, Manager

Section II – Financial Statement Findings (Continued)

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NONCOMPLIANCE WITH STATE STATUTES

**Expenditures in Excess of Appropriations—Budgetary Funds**

**Finding 07-2**

Condition: Our examination of procedures used by the Commission to adopt and maintain operating budgets for the budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The 2007 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2007 expenditures exceeded the board's approved budget allocations for some general fund activities.

During the fiscal year ended September 30, 2007, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 26 of the financial statements.

Criteria: The expenditures of funds in excess of appropriations is contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

Recommendation: We recommend that the chief administrative officer and personnel responsible for administering the activities of the various funds of the Commission, develop budgetary control procedures for the General Fund which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Management's Response—Corrective Action Plan: Budgets will be monitored in the future.

- Contact Person(s) Responsible for Correction:  
Anthony Casali, Manager



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMAN, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT TO MANAGEMENT**

Members of the Board of County Road Commissioners  
Isabella County Road Commission  
2261 E. Remus Road  
Mt. Pleasant, Michigan 48858-9002

We have audited the basic financial statements of the Isabella County Road Commission for the year ended September 30, 2007, and have issued our report thereon dated January 8, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Isabella County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Isabella County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grant agreements. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Isabella County Road Commission are described in Note 1 to the financial statements. We noted no transactions entered into by the Isabella County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, of transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### **Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Isabella County Road Commission that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements.

### **Disagreement with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the independent auditors' report. We are pleased to report that no such disagreement arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Road's financial statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Isabella County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

### **Comments and Recommendations**

Capitalization Policy (Prior) – The Commission is required to develop a capitalization policy and guidelines for infrastructure and capital assets. A threshold of \$5,000 for infrastructure and \$1,000 for other capital assets should be sufficient for accurate reporting.

Purchase Orders (Prior) – All purchase orders should be signed and provided to the Finance Director prior to ordering according to Commission policy. This procedure would notify the clerk of capital outlay expenditures which must be capitalized in the records.

Status: Corrected.

Gifts/Awards – During our review of payroll transactions, we noted employees are provided with a gift/reward in conjunction with a safety program. The Commission should develop a formal written safety program and include the cost of any gifts/awards as compensation in Form W-2 in compliance with Internal Revenue Service Regulations. Compensation must be approved by the County Board of Road Commissioners and the Road Commission Board's compensation must be approved by the County Board of Commissioners.

Reoccurring Billings – Although management reviews significant or stock purchases and indicates approval by initial, reoccurring billings for utilities, small supplies, etc. do not indicate approval by initial. To strengthen controls over disbursements and indicate management authorization of all disbursements, initials should be written on all invoices to avoid duplicate payments and indicate the authorizer of payment.

Status: Corrected.

Check Review – Cancelled checks require two signatures by board procedure. We noted at times during the year that some checks were processed by the bank with only one signature. The automated check signing process appears at times to sign checks made to themselves as the payee. To avoid potential conflicts and strengthen the review process of cancelled checks, checks should not be signed by the payee and two signatures should be indicated on all checks.

Status: Corrected.

Auto Lease Value – Personal use of business automobiles is considered compensation to employees according to Internal Service Regulations. An auto lease value amount should be calculated in accordance with IRC provisions and included as compensation on the employee's Form W-2 at year end for any usage deemed personal.

Fraud Policy – With the implementation of Statement of Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks within a governmental entity. The Commission does not have a "fraud policy" which would address fraud or suspected fraud and related board actions. We recommend the Commission adopt a fraud policy in compliance with SAS No. 99.

Certificates of Deposit – MCL 247.662(12) requires that deposits of MTF must be deposited in a separate account payable to the Road Commission. To assure county road funds and investments are under the control of Board of County Road Commissioners, certificates should be issued in the Road Commission name. This would assure that road funds are only used for road commission purposes, held by the County.

Policy and Procedure Manual – The Accounting Procedures Manual for Local Units of Governments and the Uniform Accounting Procedures Manual for County Road Commissions were recently updated by the Michigan Department of Treasury. These bulletins contain several policies and procedures which the Commission should review and implement as appropriate. The Commission policy and procedures have not been updated to incorporate the changes recommended in the state manuals.

Limitations in Internal Controls – The perfect internal control system does not exist. Staffing limitations can hamper establishing the necessary segregation of duties, especially for small units in a period of shrinking budgets. The potential for human error is always present and can be limited, but never eliminated. There will always be those that will specifically try to circumvent the system to their benefit regardless of the sufficiency of the internal control. Collusion between employees, officials, vendors, and other third parties can bypass an appropriately designed segregation of duties. Internal controls need to be designed to reduce the risks associated with undetected errors or misappropriation to a manageable level without making day to day operations inefficient and cumbersome or too costly. The cost of implementing a specific control should not exceed the expected benefit of the control. In analyzing the pertinent costs and benefits, management must consider the possible ramifications for the local unit, as a whole, and attempt to identify and weigh the intangible as well as tangible consequences.

#### **GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions (Prior)**

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.



The Statement is implemented in three phases, with the Isabella County Road Commission required to implement the Statement for the year ended September 30, 2009. GASB Statement 45 will impact the future accounting of post-employment health insurance costs as it relates to the amount the Commission will be required to fund these benefits. Beginning in 2009, the Commission will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The Board of Commissioners as well as Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

### **Conclusion**

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This report is intended solely for the information and use of management, the Isabella County Road Commission, state awarding agencies and pass-through entities, and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

January 8, 2008